

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY AND FPL ENERGY DUANE ARNOLD, LLC	DOCKET NOS. SPU-2005-0015 TF-2012-0577
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ORDER

(Issued January 31, 2013)

I. PROCEDURAL HISTORY

On August 7, 2012, Interstate Power and Light Company (IPL) and NextEra Energy Duane Arnold, LLC (NextEra), filed with the Utilities Board (Board) an Amendment in Docket No. SPU-05-15. Because all filings made in the docket on and after August 7, 2012, must be filed electronically, electronic filing conventions require that the docket now be known as Docket No. SPU-2005-0015.

The Amendment filed by IPL and NextEra is to a proposal for reorganization initiated on July 29, 2005, when IPL and FPL Energy Duane Arnold, LLC (FPLE Duane Arnold; will also referred to as NextEra, its successor), filed a joint application for reorganization pursuant to Iowa Code §§ 476.76 and 476.77 and 199 IAC 32 to allow IPL to sell its interest in a nuclear facility, the Duane Arnold Energy Center (DAEC) in Linn County, to NextEra. On November 30, 2005, the Board issued an order which found, among other things, that the DAEC sale would not be contrary to the interests of ratepayers and the public interest (Reorganization Order). The Board

did not disapprove the reorganization and allowed the DAEC sale to go forward by operation of law. Requests for rehearing were filed, and the Board issued its rehearing order on December 20, 2005. While the Board modified and clarified its earlier order, the decision not to disapprove the reorganization and to allow the sale of DAEC to go forward by operation of law was affirmed.

As part of the DAEC sale, IPL and NextEra entered into a long-term contract for IPL to purchase NextEra's share of the output of DAEC. IPL and NextEra have executed a new proposed contract that will become effective upon expiration of the current DAEC contract, or February 22, 2014. The new proposed purchase power agreement (PPA) is the subject of the Amendment and is for slightly less than 12 years. IPL also made an accompanying tariff filing, identified as Docket No. TF-2012-0577, which reflects tariff changes to IPL's energy adjustment clause (EAC) as a result of the proposed new contract; the proposed changes to the EAC would be effective on February 22, 2014.

The Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an appearance and response on August 16, 2012. On August 23, 2012, the Board issued an order which, among other things, set a procedural schedule and intervention deadline. The Board set a procedural schedule that accommodated the statutory 90-day deadline in Iowa Code § 476.77(2), which was November 5, 2012. However, the Board also noted that the statute provides for a

90-day extension and stated that the Board might revise the schedule to allow additional time for review, if good cause was shown.

On September 5, 2012, the Iowa Consumers Coalition (ICC), which intervened in the initial reorganization proceeding involving the sale of DAEC, filed an appearance, requests for permission to appear, request for extension of the 90-day deadline, and a petition to intervene in the accompanying tariff proceeding (TF-2012-0577). ICC is an ad hoc group of large consumers that purchase electricity from IPL. Currently, the group is comprised of Archer Daniels Midland Company; Cargill, Inc.; Equistar Chemicals, L.P.; and United States Gypsum Company.

In support of its request for a 90-day extension of the decision deadline in Docket No. SPU-2005-0015 and a corresponding extension in Docket No. TF-2012-0577, ICC stated that IPL proposes to recover the costs of the new DAEC PPA solely via energy charges under its EAC. ICC said that was different than how DAEC PPA costs are currently recovered; under the existing PPA, the costs are allocated between demand and energy charges, with demand charges included in IPL's base rates and energy charges flowed through IPL's EAC. ICC said its preliminary analysis indicated that the new cost recovery approach will result in cost shifts among customer classes, to the detriment of large customers. ICC said it needed more time than what was provided in the schedule to develop the record and investigate the issues.

Iowa Code § 476.77(2) states "[a] proposal for reorganization shall be deemed to have been approved unless the board disapproves the proposal within ninety days after the filing." This section further provides "[t]he board, for good cause shown, may extend the deadline for acting on an application for an additional period not to exceed ninety days." The Board found that ICC established good cause for an extension and granted the extension, ICC's intervention, and modified the procedural schedule by order issued September 10, 2012. The new statutory deadline for a Board decision is February 3, 2013. Because February 3 falls on a Sunday, the deadline is extended one day, to February 4, 2013. Iowa Code § 4.1(34).

Because the deadline was extended, the Board said it expected intervenors to file prefiled testimony pursuant to the modified schedule contained in the order. Prefiled testimony is useful to the Board, and other parties, in narrowing and focusing the issues and preparing for cross-examination at the hearing, particularly because limited hearing time is available. While 199 IAC 32.9(1) provides that the failure to file testimony does not preclude intervenors from presenting testimony and exhibits at hearing, the Board expected that with the new schedule most of the evidence from the parties should be in prefiled testimony so that the two days allocated for the hearing could be used largely for cross-examination.

On September 20, 2012, the Large Energy Group (LEG) filed a petition to intervene. LEG said it is a group of 25 of the largest electric service customers of IPL, including industrial customers, municipalities, and hospital facilities. A complete

listing of LEG's members was attached to its petition to intervene. The Board granted LEG's petition to intervene on September 27, 2012.

A hearing was held on December 17, 2012. All parties participated in the hearing. During the hearing, a potential ex parte communication was disclosed on the record and identified as Exhibit 501. Parties were given until December 27, 2012, to file any comments on the exhibit. LEG filed comments on Exhibit 501.

Parties also had the opportunity to submit simultaneous briefs pursuant to the procedural schedule. All parties submitted post-hearing briefs.

II. STATUTORY FACTORS FOR REVIEW OF A REORGANIZATION PROPOSAL

Iowa Code § 476.77 provides that a reorganization of any public utility shall not take place if the Board disapproves. Iowa Code § 476.77(3) lists the following factors that the Board may consider in its review of a proposal for reorganization:

- a. Whether the board will have reasonable access to books, records, documents, and other information relating to the public utility or any of its affiliates.
- b. Whether the public utility's ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure, is impaired.
- c. Whether the ability of the public utility to provide safe, reasonable, and adequate service is impaired.
- d. Whether ratepayers are detrimentally affected.
- e. Whether the public interest is detrimentally affected.

In this reorganization, the important questions are the impacts of the proposed reorganization on IPL's ratepayers and whether they will be detrimentally impacted. The Board will discuss each of the five statutory factors.

III. SUMMARY OF THE ORIGINAL REORGANIZATION

The purpose of the original reorganization was to allow IPL to sell its 70 percent interest in DAEC, including nuclear fuel, to FPLE Duane Arnold, which subsequently became NextEra. The primary transactional document to effectuate the sale was an Asset Sales Agreement (ASA). In addition to the ASA, IPL and NextEra entered into a PPA that began when the sales transaction closed and terminates in 2014.

Some of the key elements of the transaction were:

1. NextEra agreed to pay IPL \$380.3 million at closing, plus or minus any adjustments pursuant to the ASA, for IPL's interest in DAEC, including nuclear fuel.

These were the total proceeds of the sale.

2. NextEra and IPL agreed to execute a PPA extending from the time of closing (projected to be on or about January 31, 2006) to the end of DAEC's then-current licensed life with terms designed to mirror the costs that IPL's customers would have paid in base rates and through the EAC if IPL continued to own its 70 percent share of DAEC.

3. NextEra assumed IPL's obligations for: a) long-term storage of spent nuclear fuel, b) decommissioning DAEC in accordance with Nuclear Regulatory Commission (NRC) regulations sufficient for termination of the NRC license, and c) restoring the DAEC site to greenfield status. IPL transferred its external

decommissioning trust funds to NextEra at the time of closing to be accounted for in an external trust and to be used for DAEC's decommissioning.

4. NextEra assumed two collective bargaining agreements covering DAEC employees and offered all of the existing workforce employment with total compensation and benefits that were substantially equivalent to their existing compensation package for a period of 18 months.

5. IPL retained about half of the net book value return of sales proceeds to retire IPL short-term debt and distributed a similar amount as an extraordinary dividend to IPL's parent company, Alliant Energy Corporation.

6. At closing, NextEra assumed pension obligations for DAEC's workforce and associated pension assets were transferred to NextEra for that purpose. In addition, IPL used \$13.16 million of DAEC sales proceeds to fund the difference between current pension assets and accrued liabilities.

IV. SUMMARY OF THE PROPOSED AMENDMENT

The Amendment filed by IPL and NextEra, with accompanying tariff filing, reflects a new DAEC PPA entered into by the parties which would extend the contract, currently set to expire in 2014, by approximately 12 years. IPL said it required Board action on both of these filings or the contract would not become effective because of a regulatory out clause. IPL and NextEra only seek acceptance (or non-disapproval) of the reorganization Amendment and approval of the tariff; the companies are not seeking to reopen any other aspect of the sale of DAEC.

IPL and NextEra also asked that the Board make certain specific findings: that the new DAEC PPA will benefit consumers, is in the public interest, and does not violate state law. With respect to the first two findings requested, these do not reflect the applicable statutory standard, which is that ratepayers and the public interest are not detrimentally affected.

IPL also requested that the Board use specific language acknowledging that the New DAEC PPA has off-balance sheet implications for IPL. This is not a finding required by the reorganization statutes.

V. ACCESS TO BOOKS AND RECORDS

The first statutory factor the Board may consider in reviewing a proposal for reorganization is “whether the board will have reasonable access to books, records, documents, and other information relating to the public utility or any of its affiliates.” Iowa Code § 476.77(3)"a." It is uncontested that this statutory factor has been satisfied.

IPL will continue to follow the Federal Energy Regulatory Commission’s Uniform System of Accounts. Also, IPL’s books and records will continue to be located in Iowa. (IPL’s Application Vol. 6, Amendment, p. 24). The Board will have the same access to IPL’s books and records if the reorganization is allowed to go forward that it has today. In the initial reorganization proceeding, the Board noted that after the DAEC contract expired it would still require information on items that may impact IPL or its ratepayers, such as nuclear decommissioning and the spent

nuclear fuel litigation. NextEra committed in the original proceeding to provide the Board the information it needs to perform its regulatory functions, and the Board's decision in this Amendment docket explicitly takes into account this commitment, which includes the Board's understanding that providing this information does not make NextEra or any subsidiary a public utility subject to the Board's general jurisdiction.

VI. ABILITY TO ATTRACT CAPITAL

In reorganization proceedings, the Board examines whether the public utility's ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure, is impaired. In making this finding, the Board looks at the utility's capital structure and whether the utility will have reasonable access to the capital markets by protecting its credit rating.

Consumer Advocate and IPL agree that the new DAEC PPA will not have a significant impact on IPL's capital costs and that there is no need to adjust IPL's current capital structure in this proceeding. (Tr. 43, 198-99). In other words, both agree that this criterion has been met.

However, IPL argued that entering into the new DAEC PPA may have a negative impact on IPL's credit rating because financial analysts believe that PPAs have debt-like attributes since they are long-term binding commitments; such commitments are found by analysts to have Off Balance Sheet (OBS) impacts. IPL noted that a modest increase in IPL's common equity ratio in its capital structure

would offset this negative impact. (Tr. 181-96). IPL wants the Board to explicitly acknowledge in its order that the credit rating agencies consider the OBS impact of PPAs and that increasing the equity ratio would offset the impact of the OBS adjustment.

Consumer Advocate argued that it is premature for the Board in this proceeding to acknowledge any potential OBS implications of the new DAEC PPA. Consumer Advocate noted that no evidence showing what the impact would be was introduced and that determining the appropriate capital structure for future rates is a rate case issue. Consumer Advocate pointed out that similar concerns were present in the initial reorganization involving the sale of DAEC and the initial PPA and that no adjustments have been made to IPL's capital structure based on those concerns in subsequent rate cases. (Tr. 38-39, 190). In addition, Consumer Advocate noted that both IPL and Consumer Advocate agreed that the credit rating agencies consider many factors in determining a company's credit risk, including the OBS impact, and the Board could consider this along with all other capital structure issues as part of a future rate proceeding. (Tr. 43, 187-89, 199, 350-51). Finally, Consumer Advocate pointed out that the new DAEC PPA will have a smaller OBS impact than the current PPA since the new DAEC PPA costs are to be recovered through the EAC and any capacity payments determined in a future proceeding are likely to be lower than current capacity payments, making the new PPA more favorable than the existing PPA from a risk assessment perspective. (Tr. 194).

The Board agrees that it is premature to address OBS issues in this proceeding. In addition to the reasons cited by Consumer Advocate, the new DAEC PPA is generally an extension of the current PPA, but at a lower cost, and IPL acknowledged that the new DAEC PPA would not have a material impact on IPL's ability to attract capital and maintain its capital structure. (Tr. 197-98). Also, two IPL witnesses acknowledged that the OBS issue could be raised in a future rate proceeding. (Tr. 43, 199). IPL witness Gresens noted his estimate of the OBS impact on IPL's capital structure, assuming a base common equity ratio of 50 percent, is less than 1 percent. (Tr. 201). In other words, any OBS impact on IPL's capital structure is very modest and IPL witness Gresens explained that there is no material impact on the proposed DAEC transaction if the Board does not explicitly acknowledge the negative impact PPAs may have on a utility's credit rating. (Tr. 206).

The reorganization statute focuses on the ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure. It is undisputed that this transaction will not impair IPL's ability to attract capital. Issues surrounding any OBS impacts are best left for a rate case when all of the other issues that may impact capital structure can be considered.

VI. SAFE, REASONABLE, AND ADEQUATE SERVICE

There appears to be no dispute among the parties that after the Amendment IPL will continue to provide safe, reasonable, and adequate service to its customers,

and that the Amendment will have no adverse or detrimental impacts on IPL's electric service operations. Consumer Advocate noted that based on the terms of the DAEC contract as described by an IPL witness (Tr. 161-62), including the favorable cost terms as compared to the current PPA, the new PPA will support and enhance IPL's ability to provide safe, reasonable, and adequate service. (Consumer Advocate Brief, p. 12).

The Amendment continues IPL's relationship with NextEra and DAEC. As was true with the initial PPA, DAEC provides fuel diversity and cost stability and is a carbon-free asset in Iowa's generation mix. Also, absent DAEC's operation, significant investment in the Cedar Rapids area transmission system would be required for safe and reliable operation; DAEC provides dynamic reactive support for the Cedar Rapids area. (Reorganization Order, pp. 47-48; Tr. 327). DAEC is the only nuclear plant located in Iowa. NextEra has made about \$65 million in capital investments since taking over DAEC and plans to continue investing in the plant over the next five years. (Tr. 318-24). IPL can use the capacity provided by DAEC, as shown in IPL Exhibit RDB-1, Schedule A, and the energy, as shown by IPL Exhibit RDB-1, Schedule B. The new DAEC PPA will help assure that IPL continues to provide safe, reasonable, and adequate service.

VII. RATEPAYER INTEREST

The principle arguments in this case relate to ratepayer interest and revolve around the request for proposals (RFP) process utilized by IPL and IPL's

consideration of DAEC alternatives, the PPA terms, transmission issues, and customer impact. The customer impact issue specifically relates to the change in the way IPL proposes to recover costs associated with the new DAEC PPA. In the current contract, there is a capacity component identified and capacity costs are recovered in base rates. In the proposed new PPA, there are no capacity costs identified in the contract and IPL proposes to recover all costs through its energy adjustment clause (EAC). The customer impact issue also relates to the potential that IPL will double recover some of the DAEC costs when the new PPA goes into effect in 2014.

RFP Process and Consideration of Alternatives

All parties except LEG support the new PPA (if the double-recovery issue can be resolved) and were generally satisfied with IPL's decision-making process, which involved two paths: development of the design basis for a natural-gas fired combustion turbine plant and initiation of a competitive RFP for third-party supply. IPL defined resources that would be eligible for consideration and would not accept bids that were not backed by hard assets. (Tr. 135-36). IPL retained Concentric Energy Advisors to design, administer, and manage the RFP process.

All bids received, except the DAEC bid, were for gas-fired combined cycle units where IPL would be responsible for supplying natural gas under tolling agreements. As noted by Consumer Advocate in its brief, IPL tested the

reasonableness of the RFP responses using the Electric Generation Expansion Analysis System, commonly known as EGEAS, econometric model.

Some of the bidders relied on assets located outside Iowa and IPL was concerned about transmission issues and reliability risks that could impact costs, so it conducted another EGEAS analysis to reflect those risks. (Tr. 79). At the time of IPL's analysis, the Midwest Independent Transmission System Operator, Inc. (MISO), proposed to create local resource zones (LRZ); this concept meant that any capacity located outside a utility's load zone could not be counted towards Module E (resource adequacy) capacity requirements without firm transmission service from the LRZ where the generating capacity was located to the LRZ where the load was located. To reflect this risk, IPL added the cost of point-to-point transmission service from each proposed generation LRZ to the Alliant West load zone. This charge was not added to NextEra's proposal because DAEC is located in IPL's load LRZ. (Tr. 80). IPL performed additional analysis, taking out the transmission charges, but assuming there would be no capacity credit for bids involving units outside IPL's LRZ. Under both scenarios, DAEC was competitive.

IPL said that the new DAEC PPA meets its supply portfolio objectives, which included securing dependable long-term base load power supply at reasonable costs and reducing customers' exposure to cost volatility. (Tr. 160). IPL said the new PPA has a fixed price for the life of the contract at levels below projected alternatives and lower than the current DAEC PPA. The contract term is for nearly 12 years and is for

an asset located within IPL's load zone. Consumer Advocate did not contest the contract terms, but noted that IPL chose a 12-year versus a 20-year PPA option; Consumer Advocate said that IPL should continue to consider a longer-term PPA as the factors that affect resource planning continue to evolve.

LEG's complaints with the RFP process dealt with the failure of the new DAEC PPA to have a capacity component, which will be addressed later, and IPL's creation of what LEG views as a duplicative transmission component for bids involving assets outside IPL's LRZ. LEG argued that if the duplicative transmission component were removed, IPL had other options that had separate energy and capacity components as part of the bid.

While LEG maintains that IPL's analysis was biased towards the new DAEC PPA, LEG did not present any analysis that supports another supply option or any evidence that the requirements and design of the RFP discouraged robust bidding. Also, IPL's analysis showed that DAEC was the preferred option even before IPL added transmission costs. This is without consideration of the non-economic factors supporting DAEC, such as compliance with environmental regulations, fuel diversity, operational considerations, and security and reliability. (Tr. 83). LEG's witness admitted that its conclusions were not necessarily based on any conclusion that DAEC was not a competitively-priced power supply option, but only that LEG preferred a contract with demand and energy priced separately. (Tr. 400).

IPL concluded that both the 12-year and 20-year DAEC PPA proposals were attractive options. (Tr. 31). IPL decided to move forward with the 12-year option, while still having the option of pursuing a longer term agreement or extension of the new DAEC PPA. (Tr. 31-32, 46). IPL's selection of the 12-year option has not been shown to have a detrimental impact on ratepayers, the statutory standard for a reorganization proceeding. However, as noted by Consumer Advocate, IPL has a continuing obligation to consider viable long-term PPA options with DAEC as the factors that impact resource planning continue to evolve.

The transmission issues raised by LEG will now be specifically addressed.

Transmission Issues

IPL said that MISO is implementing changes to the LRZs, which are expected to become effective with the 2013-2014 Module E planning year, to encourage generating capacity to locate closer to the load it serves for reliability reasons. (Tr. 89-90). IPL stated that under MISO's proposal, generation located in a different zone than its load zone would be required to either pay a zonal delivery charge (ZDC) or secure point-to-point transmission service. (Tr. 92).

IPL concluded that the revised LRZ would introduce new transmission costs for resources located outside the Alliant West load zone, but the exact amount cannot be calculated at this time. IPL requested that bidders include in their RFP bids all costs to deliver capacity to the Alliant West load zone, but none did so. Therefore, IPL said it estimated those costs in its analysis. (Tr. 93). IPL noted that it

was not trying to predict the exact transmission charges that would apply, but only to represent potential transmission costs and risks in its analysis. (Tr. 115-17).

LEG argued that IPL's addition of the costs of point-to-point transmission service to its analysis of bids located outside the Alliant West load zone was unnecessary because IPL already has Network Integrated Transmission Service (NITS) with MISO, meaning that IPL customers should not be concerned with the LRZ construct and future MISO ZDC costs. LEG said the additional point-to-point charge double counted the transmission charge for resources located outside the Alliant West load zone. (Tr. 381). LEG noted that without the addition of this transmission charge, the other bids were basically equal to NextEra's DAEC bid, but without DAEC's disadvantage of not separating the energy and capacity cost components. (Tr. 90).

MISO is making changes to the current LRZs to encourage generating capacity to locate closer to the load it serves. Under MISO's new construct, if a load serving entity like IPL does not secure needed transmission either through the payment of ZDC or point-to-point transmission service, then IPL will not receive Planning Reserve Credits (PRCs) within MISO's Module E calculation (Tr. 92.) PRCs count towards meeting MISO's resource adequacy requirements. LEG argues that because IPL has MISO NITS transmission to cover its load an additional transmission charge is not necessary. However, NITS does not provide the load-services entity (IPL in this case) with PRCs.

Given the uncertainty surrounding these costs, it was reasonable for IPL to develop an estimate of these costs in the consideration of various proposals. (Tr. 93). However, it is important to note that the parties to this proceeding appear to agree that without the adder that represents the cost of additional transmission charges, the present value revenue requirement analysis for the new DAEC PPA and the lowest cost of the other bidders “were basically equivalent.” (Tr. 90). In other words, the DAEC contract is competitive even if the transmission adder is removed from the other bids, even without consideration of DAEC’s economic and noneconomic benefits, which are noted earlier and discussed in greater detail in the Public Interest section.

IPL’s transmission adder appropriately recognizes that bids for generation supplies located outside of the Alliant West load zone (up to several states away) present transmission risks to IPL and its customers, compared to DAEC generation as a resource, which is located within the Alliant West load zone. LEG’s arguments seem to be largely based on its preference for separation of energy and capacity costs, not that the new DAEC contract is uneconomic compared to the alternatives. While the Board believes IPL’s inclusion of point-to-point transmission charges for bidders outside the Alliant West load zone was reasonable, the evidence shows that the decision to select DAEC was justified even if the transmission charges are excluded.

Double Recovery and Shifting of Capacity Costs

It is undisputed that total annual costs paid by IPL under the new DAEC PPA would be significantly less than IPL is paying under the existing DAEC PPA. (Tr. 35-36). However, even though total annual costs will be less, there are two ratepayer impact issues that have been raised relating to IPL's EAC tariff proposal, wherein all costs associated with the new DAEC PPA would be recovered through the EAC. The two ratepayer impact issues are: 1) the potential double recovery of capacity costs; and 2) the potential shifting of some DAEC capacity costs to Large General Service and Bulk Power customers.

IPL Position

Introduction

Concurrent with its proposed Amendment to the reorganization in Docket No. SPU-2005-0015, IPL proposed to amend its "Rider EAC—Energy Adjustment Clause" tariff in Docket No. TF-2012-0577 to explicitly allow full EAC recovery of all power purchase costs associated with the new DAEC PPA, beginning on February 22, 2014, the day the current PPA expires and the new PPA begins. IPL made this proposal because all DAEC costs will now be billed to IPL on an energy-only basis, reflecting a sizable shift in costs from capacity charges to energy charges in the new DAEC PPA. IPL said that this EAC treatment is consistent with other energy-billed PPAs. IPL asked that the Board approve the EAC tariff changes at the same time it approves the new DAEC PPA, to provide IPL customers and investors

regulatory certainty regarding cost recovery and ratemaking treatment for the new DAEC PPA. (Tr. 224-26). IPL noted that the tariff change would have no impact on rates until February 22, 2014.

However, IPL's base rates would continue to be based on calculations that include the DAEC capacity payments under the existing PPA. Other parties expressed concern that IPL would potentially double recover all or a portion of the DAEC capacity costs for some period of time following February 22, 2014.

IPL acknowledged concerns expressed by the other parties about the potential for over-recovery of DAEC capacity costs currently recovered in base tariff rates when the new DAEC PPA and EAC tariff changes take effect on February 22, 2014, and the potential cost allocation and rate design changes when DAEC capacity costs are billed to IPL in the form of energy charges. To address these concerns, IPL first committed to working with the parties to resolve the issues prior to February 22, 2014. If negotiations are unsuccessful, IPL committed to file a general rate case in 2014 to appropriately reflect all costs of providing service in the context of a 2013 test year, which would include the removal of DAEC capacity payments as a pro forma expense adjustment, and reflecting all other changes in costs that have occurred since IPL's last electric rate case in Docket No. RPU-2010-0001. In conjunction with this, IPL stated it would file a corporate undertaking that makes the rate case refund obligation effective with the start date of the new DAEC PPA and EAC tariff changes (February 22, 2014). (Tr. 242-49; Exh. 1). IPL argued that this

2014 rate case would also serve as the appropriate forum for addressing any cost allocation and rate design issues associated with the new DAEC PPA, if negotiations are unsuccessful. (Tr. 224). IPL also said that during the 2014 rate case, it could propose to offset the initial increased EAC costs related to the new DAEC PPA by crediting additional Tax Benefit Rider (TBR) funds to customers through the EAC. (Tr. 225). The TBR is a special rider created in Docket No. RPU-2010-0001 to pass through to customers certain tax benefits expected by IPL.

IPL countered LEG's contention that the new DAEC PPA energy-only charges do not qualify for EAC recovery under 199 IAC 20.9, arguing that the new charges will meet the rule's five criteria for inclusion. IPL also opposed LEG's contention that the new DAEC PPA charges should be split into separate capacity and energy charge components, arguing that the relationship of capacity costs to energy costs in the new DAEC PPA is not obvious and not necessarily the same as in the current DAEC PPA. IPL also noted that LEG does not specify or propose a preferred split. (Tr. 227-28). IPL argued that EAC recovery of the new energy-only charges is appropriate because it will track the monthly variation in costs in a timely manner, and recoveries from customers will match the costs incurred. (Tr. 228-29). Although there are no capacity charges associated with the new DAEC PPA, IPL said it would receive credit for DAEC capacity within MISO. (Tr. 230).

Potential Double Recovery

IPL said that its proposed 2014 rate case and corporate undertaking, with a rate case refund obligation effective February 22, 2014 (coincident with the New DAEC PPA and EAC tariff changes), addresses the double-recovery issue raised by the other parties. IPL explained that this is because the rate case would be determining base tariff rates effective February 22, 2014, even if this determination is made at the end of the rate case. IPL said that the final base tariff rates would reflect removal of capacity costs associated with the current DAEC PPA and all other changes in costs since IPL's last rate case. IPL noted that if the base tariff rates in effect during the rate case end up being higher than the final rates, IPL would refund the difference to customers; this refund obligation eliminates the issue of double recovery.

IPL acknowledged the potential rate impact that the new DAEC PPA energy charges (effective February 22, 2014) will initially have during IPL's proposed 2014 rate case, as the energy charges will be on top of the DAEC PPA capacity charges currently recovered in base tariff rates. IPL proposed that during the course of the rate case, it could offset the increased DAEC PPA costs with outstanding TBR funds, which can also be credited to customers through the EAC. IPL said this temporary credit would mitigate the immediate EAC cost burden for higher load factor customers (as well as other customers) and will be based on the difference between

increased energy charges under the new DAEC PPA (effective February 22, 2014) and 2013 energy charges under the current DAEC PPA. (Tr. 238-40).

IPL argued that it would be inappropriate to reduce base tariff rates outside of a rate case, as proposed by Consumer Advocate. IPL said that any base rate adjustment that reflects only the change in DAEC capacity costs would be inconsistent with Board precedent in Docket Nos. ARC-01-150 and ARC-01-151, where the Board noted in an order issued April 8, 2002, "the difficulty in singling out one cost for an adjustment outside of a full rate proceeding."

IPL also opposed ICC's proposal to allow EAC recovery of only that portion of the new DAEC PPA energy charges that exceed the DAEC PPA capacity charges currently recovered through base tariff rates. Although such an approach would avoid the double-recovery problem, IPL argued that it would potentially create an under-recovery problem for IPL, since such an adjustment would ignore the other changes in IPL costs that have occurred since IPL's last rate case. (Tr. 234-35).

Similarly, IPL said it would oppose removing DAEC PPA capacity charges from rate case temporary rates that are designed to be effective February 22, 2014. IPL stated that in order to file a rate case with temporary rates effective February 22, 2014, it would have to use a non-calendar test year, which would add significant difficulty for all parties in terms of record keeping and auditing. In order to use the 90-day process for temporary rates under Iowa Code § 476.6(10)(a), IPL said that the test year would have to be the 12 months ending July 2013; and based on IPL's

financial forecasting, this might require IPL to file an additional rate case in 2015. If the rate case has a calendar 2013 test year and DAEC PPA capacity charges were removed from base tariff rates effective February 22, 2014, with temporary rates effective sometime after February 22, 2014, IPL argued that it would risk under-recovery of costs between February 22, 2014 and the date temporary rates go into effect. IPL concluded that its proposal for a 2014 rate case with a refund obligation effective February 22, 2014, along with the potential use of additional TBR credits, eliminates both risks of double recovery and under-recovery of new DAEC PPA costs. In addition, IPL committed to leaving temporary rates at the same level as IPL's current base rates.

Potential Cost Shift

IPL acknowledged a potential shifting of costs among customer classes when the DAEC PPA pricing structure is changed from a combination of capacity and energy charges to energy charges only, and agreed with other parties that it is appropriate to allocate the new DAEC PPA costs to customers in a way that reflects the underlying capacity-related benefits of DAEC. IPL suggested this should be addressed as a class cost-of-service issue in IPL's proposed 2014 rate case or in an alternative solution agreed to by the parties and approved by the Board. IPL noted this is generally consistent with the positions of Consumer Advocate and ICC and stated that IPL will work with the other parties in 2013 to help facilitate the process, if requested. (Tr. 235-38). IPL also noted that because total PPA costs will be lower

under the new DAEC PPA than the current PPA, the vast majority of customers will end up paying lower overall rates under the new PPA than under the current PPA. (Ex. 402).

NextEra Position

NextEra supported IPL's proposed solution to avoid double recovery, the filing by IPL of a rate case in 2014, with a refund obligation effective February 22, 2014, which reflects IPL's acceptance of expanded refund responsibilities to cover the short gap in time between the effective date of the new DAEC PPA (with accompanying EAC tariff changes) and the effective date of rate case temporary rates. NextEra also supported IPL's position that the potential cost shift to large load factor customers should be examined in IPL's proposed 2014 rate case.

Consumer Advocate Position

Consumer Advocate argued that if IPL's proposed EAC tariff changes are approved as proposed, IPL could double recover its capacity costs associated with the DAEC PPA, which are currently recovered through IPL's base tariff rates based on the amount approved in IPL's last rate case.

Consumer Advocate proposed three alternatives that it said would resolve the double-recovery issue. First, allow IPL to recover through the EAC all charges associated with the new DAEC PPA, but adjust base tariff rates to remove capacity charges associated with the current DAEC PPA. Second, modify IPL's proposed EAC tariff language to deduct capacity charges associated with the current DAEC

PPA until the capacity charges are removed from base tariff rates in IPL's next rate general case. Third, IPL should file a general rate case that removes the DAEC capacity charges from base tariff rates, effective February 22, 2014, the same date as IPL's proposed EAC tariff changes, to ensure that IPL does not double recover DAEC capacity charges over the course of the rate case. (Tr. 337-38, 340-41). If one of these three remedies were adopted, Consumer Advocate concluded that ratepayers would not be detrimentally affected by the new DAEC PPA.

ICC Position

To ensure that IPL does not double recover its DAEC capacity costs through both the EAC and base tariff rates (Tr. 358-59), ICC proposed either: 1) amending the EAC tariff language to deduct the DAEC capacity costs currently recovered through base tariff rates from EAC recovery or 2) holding IPL to its commitment to file a general rate case in early 2014 that removes DAEC capacity costs from IPL's base tariff rates, and with a refund commitment that extends back to the start date for the new DAEC PPA. With respect to the potential cost shift, ICC urged that any class cost allocation issues and rate design issues associated with transforming the current DAEC capacity charges to energy charges under the new DAEC PPA be deferred to IPL's next rate case. ICC also asked the Board to clarify in its order that IPL should negotiate with relevant parties to reach a resolution of both the double recovery and cost shifting issues, along with IPL's revenue requirement and other

issues, prior to IPL filing its next rate case in 2014, with reasonable discovery afforded to the participating parties. (Tr. 265-66).

LEG Position

LEG opposed IPL's proposed EAC tariff changes, arguing that approval of the new DAEC PPA charges should be conditioned on IPL dividing the new PPA charges into separate capacity and energy charges as done under the current PPA, with EAC recovery allowed only for the separate energy charges. LEG argued that the capacity costs embedded in the new DAEC PPA energy-only charges disqualify them from EAC recovery under rule 199 IAC 20.9 because the capacity component of the new charges does not meet the rule's five criteria, one of which is that the cost was incurred in supplying energy. LEG said that the recovery of capacity costs should continue to be determined in rate cases and charged through base tariff rates rather than the EAC.

LEG argued that IPL's proposed double-recovery solution of a rate case in early 2014, with a refund obligation effective February 22, 2014, does not resolve the issue. LEG said that IPL will recover all new DAEC PPA charges through the EAC beginning February 22, 2014, and also continue to recover current DAEC capacity charges through base tariff rates over the course of the rate case. LEG maintained that the refunding of net over-recoveries at the end of the rate case is not an acceptable solution.

With respect to the potential cost shift, LEG said that under the new DAEC PPA, PPA costs charged to the Bulk Power class as energy costs through the EAC would more than double between 2013 and 2014, even though overall PPA costs would be reduced. (Tr. 274-75; Ex. 402). LEG argued that this shifting of capacity costs to energy costs will distort energy price signals and reduce incentives for high load factor customers to reduce their peak kW demand charges. Over time, LEG maintained that these reduced incentives will result in higher overall demand for generation capacity and increase capacity costs for all customers. (Tr. 396). LEG said that the transfer of all DAEC charges to the energy charge under the new DAEC PPA will also make it difficult to accurately separate out the underlying capacity and energy components in a later rate case, which will likely make it a controversial issue as conceded by IPL. (Tr. 276). LEG said that the cost shift issue will therefore not be adequately resolved in IPL's next rate case.

Board Discussion

Potential Double Recovery

IPL's EAC tariff changes (TF-2012-0577), if approved as proposed, would go into effect on February 22, 2014, without any explicit safeguards against double recovery of the DAEC PPA capacity costs currently recovered through IPL's base tariff rates. The fundamental issue is how to make the transition from the current DAEC PPA to the new PPA in terms of IPL cost recovery. Cost recovery for the current PPA is based on a combination of base tariff rates for recovering DAEC

capacity charges and use of the EAC for recovering DAEC energy charges. Since the pricing structure for the new DAEC PPA has been structured as energy charges, IPL is proposing to recover all PPA costs through the EAC. However, there is a concern that EAC recovery will begin for the new DAEC PPA before cost recovery of current PPA capacity costs in base tariff rates is terminated, thus allowing IPL to double recover the DAEC capacity costs.

IPL committed to working with the parties to resolve this issue before the EAC tariff changes go into effect. However, there is no guarantee that negotiations will be successful. If the parties are unable to reach an agreement to present to the Board for its consideration, IPL committed to removing DAEC PPA capacity costs from base tariff rates in a general rate case in 2014, with a refund obligation that begins the same day as EAC cost recovery for the new DAEC PPA charges (February 22, 2014). IPL would implement no temporary rate increases. (Tr. 243-46; Ex. 1). What is missing from IPL's proposal, however, is a backstop plan that would assure that there would be no double recovery if the rate case and refund obligation proposed by IPL is delayed or postponed. The Board understands that IPL desires regulatory assurance of cost recovery for the new PPA charges. At the same time, however, IPL customers should be protected from double recovery of DAEC capacity charges, regardless of future IPL rate cases or their timing.

To assure cost recovery for the new DAEC PPA, IPL proposed to insert the following EAC tariff language in two places:

Including power purchases under the power purchase agreement with NextEra Energy Duane Arnold LLC executed on July 31, 2012, related to the output from the Duane Arnold Energy Center,

If the Board approves these tariff changes without modification, IPL customers would risk over-payment of DAEC costs if IPL's proposed 2014 rate case and refund obligation effective February 22, 2014, were postponed or otherwise delayed. IPL would begin recovering the same DAEC capacity costs twice, through both the EAC and base tariff rates.

However, if additional modifications are made to IPL's proposed EAC tariff language, requiring IPL to exclude from EAC recovery the DAEC capacity costs currently recovered through base tariff rates, then IPL risks losing recovery of these capacity costs over the course of its next rate case, when the capacity costs would also be removed from base tariff rates. This is the potential problem of double removal – removing DAEC capacity costs from the EAC and, at the same time, from base tariff rates (as part of IPL's rate case refund obligation). (Tr. 280-82).

The Board believes that the dual issues of double recovery and double removal can be avoided by conditioning IPL's proposed tariff language on IPL's fulfillment of its commitment to file a rate case in 2014 with a refund obligation effective February 22, 2014. While there is some question as to whether the Board in a rate case filing can begin the refund period prior to the implementation of temporary rates (See, Iowa Code § 476.6(10)"a" and "b"), the Board in this reorganization proceeding is relying on IPL's rate case commitment, including the

start date of the refund period, as a critical element on which the Board is basing its decision. In these circumstances, the Board believes it has the authority to order refunds from the date of IPL's commitment, February 22, 2014.

In the event IPL's rate case and refund obligation effective date are somehow postponed or otherwise delayed, the conditional language the Board will require for inclusion in the tariff will prevent double recovery of DAEC PPA capacity costs by requiring IPL to exclude them from EAC recovery. Afterward, double removal of these capacity costs may be avoided by allowing IPL to discontinue the exclusions effective with the refund obligation period associated with IPL's next general rate case. This conditional language should take the form of footnotes attached to IPL's two proposed sets of EAC tariff language. The first footnote would be as follows:

¹ The inclusion of these purchases begins with the effective date of the refund obligation associated with the 2014 Iowa general rate case proposed by the Company in Docket No. SPU-2005-0015, which is a refund obligation identical to what the Company would have if temporary rates were effective February 22, 2014. In the event the effective date of this refund obligation is delayed or postponed, the Company shall exclude from monthly **estimated** power purchases under the power purchase agreement with NextEra Energy Duane Arnold LLC executed on July 31, 2012, \$11.955 million average monthly Duane Arnold Energy Center capacity purchase costs identified in Docket No. RPU-2010-0001 (Exhibit JPN-1, Workpaper B-7). Once begun, this exclusion requirement ends with the effective date of the refund obligation and temporary rates associated with the company's next Iowa general rate case.

The second footnote would be as follows:

² The inclusion of these purchases begins with the effective date of the refund obligation associated with the 2014 Iowa general rate case proposed by the Company in Docket No. SPU-2005-0015, which is a refund obligation identical to what the Company would have if temporary rates were effective February 22, 2014. In the event the effective date of this refund obligation is delayed or postponed, the Company shall exclude from monthly **actual** power purchases under the power purchase agreement with NextEra Energy Duane Arnold LLC executed on July 31, 2012, \$11.955 million average monthly Duane Arnold Energy Center capacity purchase costs identified in Docket No. RPU-2010-0001 (Exhibit JPN-1, Workpaper B-7). Once begun, this exclusion requirement ends with the effective date of the refund obligation and temporary rates associated with the company's next Iowa general rate case.

The only difference in the two footnotes is that in the first "estimated" power purchases are used and in the second "actual" power purchases are used.

IPL committed to meeting any requirement the Board may have to file a corporate undertaking for its proposed 2014 rate case and refund obligation. (Tr. 245-46; Ex. 1). The refund obligation would be tied both to the rate case and to IPL's commitments made in this proceeding. However, if for some reason those commitments are not satisfied, the above conditional footnote language provides IPL's customers reasonable assurance against double recovery by IPL.

IPL said that any modification to its EAC tariff filing that conditions IPL's full recovery of its new DAEC PPA costs based on the outcome of a future proceeding creates risk for IPL and jeopardizes the PPA. (IPL Br. 5). However, the footnotes above do not condition IPL's full recovery on the outcome of a future proceeding but merely provide a means to enforce IPL's commitments made in this proceeding,

preserving IPL's preferred approach while also providing an additional backstop for customer protection. (Tr. 285-87, 304). If IPL and the parties are otherwise able to resolve the double-recovery issue with Board approval prior to February 22, 2014, IPL can file a tariff revision that removes the footnote language before it goes into effect on February 22, 2014.

As Consumer Advocate and LEG suggest, IPL's proposal could result in a temporary over-recovery of DAEC capacity costs during the rate case until DAEC capacity costs are removed in final base tariff rates. However, as IPL points out, over-recovery of some costs can be offset by under-recovery of other costs. (Tr. 233-35, 259-60). At the end of the case, any net over-recovery becomes the utility's final refund obligation (with interest). In addition, IPL's idea to potentially credit TBR funds back to customers through the EAC, if utilized, would offset the temporary double recovery rate impact of the new DAEC PPA during the rate case. (Tr. 225, 238-40). Because the TBR funds will be credited back to customers in some form in any event, they would not affect the final rate case refund.

The Board wants to make it clear that it is not requiring IPL to file a rate case in 2014 and in fact hopes IPL is able to delay its filing for some period of time so that its rate case moratorium can continue. However, in the event negotiations with the parties are unsuccessful, IPL indicated that it plans to make a rate filing in 2014, and the Board needs to protect ratepayers from the double-recovery potential whether IPL files a rate case or not. Therefore, in the event IPL plans to file a rate case in the

first quarter of 2014, IPL will need to file its corporate undertaking to secure its refund obligation, with an effective date of February 22, 2014, on or before January 13, 2014. If IPL files its rate case later in 2014 or in a subsequent year, IPL's EAC cost recovery will be reduced each month by the amount identified in the footnotes (\$11.995 million). This exclusion would continue until the effective date of the refund obligation and temporary rates in IPL's next rate case.

Potential Cost Shift

In the transition from the last year of the current PPA in 2013 to the first full year of the new DAEC PPA in 2015, the DAEC PPA capacity charges currently reflected in base tariff rates (established in Docket No. RPU-2010-0001) would be converted to energy charges and recovered through the EAC as energy costs. Although the overall cost of the new DAEC PPA is lower than the current DAEC PPA, conversion of capacity costs to energy charges would produce a sizable cost allocation shift of DAEC costs among customer classes, due to the change from a capacity-based allocation in base rates to an energy-based allocation through the EAC.

As IPL pointed out, total charges to customers under the new DAEC PPA will be significantly lower, which would offset customer class increases due to the cost allocation shift. (Ex. 402, Attachment A). IPL showed the changing allocation of the PPA capacity and energy costs among IPL customer classes from 2009-2015. The average and excess demand allocation factor IPL used for allocating PPA capacity

costs is from IPL's last rate case (Docket No. RPU-2010-0001). The kWh energy allocation factor IPL used is also from RPU-2010-0001 but, unlike the capacity allocator, is used only for the years 2009-2013. A different kWh allocator is used for 2014-2015. Also, IPL showed the changing capacity and energy charges paid by IPL under the current and new DAEC PPAs from 2009-2015. (Ex. 402, Attachment A).

The information contained in Attachment A to Exhibit 402 illustrates the reduction of total DAEC costs with the new DAEC PPA. However, the information also suggests that as a result of the cost allocation shift, the Residential, General Service, and Lighting classes would receive a higher percentage of the PPA cost reduction benefit than the Large General Service and Bulk Power classes.

The potential cost shifting issue is appropriately addressed in IPL's next rate case, not in this proceeding. Cost allocation and rate design issues are generally reserved for rate cases, when all aspects of a utility's costs and class pricing structure can be considered. During IPL's next rate case proceeding, parties can present evidence and argument over whether and how much of the new DAEC costs should be allocated based on a capacity allocator and how much based on an energy allocator, and how this should be reflected in the class cost-of-service study and rate design. The DAEC PPA is similar to other PPAs (other than in the amount and duration of the contract) for which costs are recovered through the EAC. Capacity and energy costs are intertwined and both appear to be related to the costs

of supplying energy; however, these costs can be separated for cost allocation and rate design purposes in a rate case.

At the same time, the Board's footnotes to IPL's tariff language protect customers from both double recovery and cost shifting, in the event IPL's rate case is delayed. All parties except LEG advocated addressing the cost shifting issue in IPL's next rate case.

VIII. PUBLIC INTEREST

It is often difficult to separate ratepayer interest from the broader public interest, and some of the issues impacting the public interest have been discussed. In examining the public interest, the Board looks at concerns broader than ratepayer interest alone, and considers the impact of the reorganization on the state and its citizens. Paragraph 199 IAC 32.4(4)"c" specifically requires Applicants to a reorganization to provide an analysis of the effect of the reorganization on the public interest. Public interest is specifically defined as "the interest of the public at large, separate and distinct from the interest of the public utility's ratepayers." The analysis is to include impacts on the state and local communities.

The remaining public interest issues relate primarily to the importance of DAEC to electric service reliability in the area and the economic benefits associated with the plant. In the Board's Reorganization Order regarding the original reorganization, the Board noted three principal reasons for finding that the reorganization was not detrimental to the public interest. First, NextEra planned on

increasing the DAEC workforce. Second, DAEC provides electric support for the transmission system in Cedar Rapids. Third, NextEra intended to extend DAEC's nuclear license.

Since the reorganization, the number of employees at DAEC has increased from 490 to 617. DAEC continues to provide dynamic reactive support to the Cedar Rapids area, which is needed for voltage support; otherwise, voltage in Cedar Rapids could drop below desired levels under certain conditions. In December 2010, DAEC's license from the NRC was extended for 20 years, until 2034. The benefits and promises made by NextEra in the original proceeding have been kept and continue.

There are other public benefits from the Amendment. NextEra has invested about \$65 million in capital in DAEC and increased DAEC's capacity by about 23 MW with power uprates in 2006 and 2008-2009. Future projects are planned to improve safety, reliability, and comply with new Nuclear Regulatory Commission regulatory requirements, such as rewind of the main generator stator and replacement of the reactor pump feed. NextEra also noted public benefits associated with the average salary of DAEC employees (\$120,000, including benefits), the annual payroll of \$85 million, the temporary increase in workforce by 600-800 during refueling outages, payment of about \$3 million in annual property taxes, and support by DAEC employees and NextEra to various local charitable causes, including significant support in the aftermath of the 2008 flooding.

Finally, DAEC's generation provides fuel diversity and supplies 32 percent of Iowa's emission-free power. In 2012, DAEC's operation avoided the emission of 12,000 tons of sodium dioxide, 6,000 tons of nitrogen oxide, and 4 million metric tons of carbon dioxide. The record supports a finding that the proposed Amendment is not detrimental to the public interest.

With lower gas prices, the economics of nuclear power have changed, as evidenced by the closure of the Kewanee nuclear plant in Wisconsin. It is not a forgone conclusion that the benefits from DAEC would continue, absent the proposed PPA extension. IPL and NextEra are to be commended for reaching an agreement that allows for DAEC's continued operation at a cost that affords IPL's customers and the public generally, particularly residents of Linn County, with significant economic and non-economic benefits.

IX. MISCELLANEOUS

At the hearing, the Board disclosed to the parties on the record an e-mail from an IPL employee to the Board Chair that could be considered an ex parte communication that is prohibited under Iowa Code § 17A.17. The e-mail was also sent by IPL to Consumer Advocate.

By taking official notice of Exhibit 501 and offering the parties an opportunity to comment using the process set out in § 17A.17, the Board cured any violation that may have occurred. The Board did not rely on Exhibit 501 or any information contained therein in making its decision in this docket.

One issue that was not addressed by any of the parties or raised by the Board during the hearing is whether this approach to PPA cost recovery undermines the legislative intent behind the advance ratemaking principles statute in Iowa Code § 476.53.

In this docket the Board was asked to take several actions that go beyond the strict requirements of the Iowa Code, so that the company could be certain that the costs of the contract extension would be approved and fully recovered. Typically, the reasonableness of a PPA and the method of cost recovery would be determined in a rate case based on a historical test year. But in this instance the Board is making those determinations in a prospective reorganization proceeding that could be viewed as a de facto advance ratemaking principles docket. Although IPL is purchasing capacity in addition to energy, the amended contract is structured so that the company will be charged only on the basis of energy. During the hearing, it was made clear that the reason for this change was to make it possible for all costs, including capacity costs, to be recovered through the EAC so that recovery of capacity cost would not be dependent on future rate cases. In addition to requesting advance approval for full cost recovery through the EAC for the life of the contract, the company asked the Board to make additional assurances and declarations that were beyond the statutory requirements for allowing a reorganization to take effect.

It is not improper for parties to ask the Board to take actions that go beyond the minimum requirements of Iowa law but are not prohibited by law, nor is it

improper for the Board to take those actions if it sees fit. Nothing in the law prevents the Board from treating the extension of an existing PPA as a reorganization or preapproving recovery of the costs, and the PPA considered in this docket could be considered a unique situation that justifies unusual treatment. However, if this approach becomes more common, it could raise concerns about whether the result of such a process may indirectly conflict with legislative intent.

In 2001, the Legislature passed legislation to “attract the development of electric power generating and transmission facilities within the state in sufficient quantity to ensure reliable electric service to Iowa consumers and provide economic benefits to the state.” (Iowa Code § 476.53(1)). To accomplish this end, the Board was authorized to set advance ratemaking principles to make it more attractive for utilities to build and own generating facilities. The legislation did not eliminate the use of PPAs and the utilities still must weigh the relative advantages of each approach and make choices that are reasonable under the circumstances. But the Legislature clearly intended that the scales should be tipped to some degree when utilities are weighing their options of building or buying generating capacity and it did so by adjusting the relative advantages of each option so that cost recovery for building and owning generation became more certain than it had been, compared to other options.

The key to the operation of Iowa Code § 476.53 is relative risk, not absolute risk. Therefore, it is not necessary to weaken the provisions of § 476.53 to weaken

the impact of that statute. Providing more regulatory certainty for PPAs may have the effect of reducing the relative value of the ratemaking guarantees for new generation under Iowa Code § 476.53. If the Board goes beyond the requirements set by the Legislature to approve PPAs with additional assurances and guarantees for the company that are not contemplated in the statutes, a question might be raised as to whether the Board has changed the *relative* costs and risks of various generation options to the point where the Board's action conflicts with the intent of the Legislature that passed the advance ratemaking statute.

These relative risks and costs were not a factor here because of the unusual circumstances. The sale of DAEC was part of a reorganization requiring Board review pursuant to Iowa Code §§ 476.76 and 476.77. The initial DAEC PPA was an integral part of the reorganization proposal and the PPA was a key factor in the Board's decision allowing the reorganization to go forward. Thus, the extension of the DAEC PPA is still a matter of interest to the Board, IPL's ratepayers, and the public generally, and this Amendment proceeding is an appropriate regulatory vehicle to bring the new PPA before the Board for a determination of the ratepayer and public interest impacts. Most PPAs will not fit within the Board's reorganization jurisdiction, however, and therefore it appears they would have to qualify under § 476.53 to merit special treatment. PPAs from existing facilities do not qualify for explicit advance regulatory principles under the statute, and other proposals for direct or indirect advance regulatory assurances for PPAs that go beyond the

requirements of Iowa law should be evaluated to determine whether they undermine the legislative intent behind § 476.53.

X. POSSIBLE CHANGES TO THE PROPOSAL

The Board will reach its conclusions on the Amendment based upon the reorganization proposal submitted to it. Any material changes in the proposed reorganization may change the basis for the conclusions the Board has reached and may require submission of a revised proposal. Therefore, if there are any material changes to the proposed reorganization prior to reorganization being finalized, IPL and NextEra will be required to file those changes with the Board, along with an analysis of the impact of the changes.

XI. FINDINGS AND CONCLUSIONS

Based upon the testimony and evidence filed pursuant to Iowa Code § 476.77 and 199 IAC 32, the Board finds that Applicants have established the proposed reorganization Amendment is not contrary to the interests of ratepayers and the public interest. The Board also finds the other statutory factors are satisfied. Therefore, the reorganization proposed by IPL and NextEra will be permitted to take place by operation of law and this docket will be terminated. The Board has jurisdiction over the parties and proceedings pursuant to Iowa Code chapter 476. The Board's conclusions that the reorganization will be permitted to take place is based on the following specific findings of fact:

1. It is reasonable to find that the Board will have reasonable access to books, records, documents, and other information relating to IPL or any of its affiliates after the Amendment.
2. It is reasonable to find that IPL's ability to attract capital on reasonable terms, including the maintenance of a reasonable capital structure, will not be impaired by the Amendment.
3. It is reasonable to find that IPL's ability to provide safe, reasonable, and adequate service will not be impaired by the Amendment.
4. With the commitments made by IPL regarding its refund obligation and the fail-safe footnotes to insert in the tariff language addressing the double-recovery issue, It is reasonable to find that the proposed Amendment is not a detriment to ratepayer interest and provides ratepayers with both quantifiable and nonquantifiable benefits.
5. It is reasonable to allow IPL to recover the costs of the new DAEC PPA through its EAC and address any capacity versus energy allocation or rate design issues in IPL's next general rate case proceeding.
6. It is reasonable to find that the proposed Amendment is not a detriment to the public interest and provides the public with quantifiable benefits.

XII. CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2005).

XIII. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Amendment to the application for reorganization filed by Interstate Power and Light Company and NextEra Energy Duane Arnold, LLC, on August 7, 2012, is not disapproved. The Amendment is allowed to take place pursuant to law.

2. Tariff filing TF-2012-0577 is approved, as modified by this order, effective February 22, 2014. IPL shall file revised tariff pages containing the modifications contained in this order within 20 days of the date of this order.

3. In the event IPL files a general rate case proceeding in the first quarter of 2014, IPL shall file a refund obligation, as it committed to in this proceeding, on or before January 13, 2014, with an effective date for the refund obligation of February 22, 2014. If IPL files its rate case later in 2014 or in a subsequent year, IPL's EAC cost recovery shall be reduced each month by the amount identified in the footnotes (\$11.995 million) to TF-2012-0577 identified in the body of this order. This exclusion shall continue until the effective date of the refund obligation and temporary rates in IPL's next rate case.

4. Pursuant to its commitment made in this proceeding, IPL shall continue discussions with the parties to this proceeding on issues related to this proceeding, with the parties having reasonable discovery available to them.

5. Applicants shall promptly file with the Board any material changes to the proposed reorganization that occur prior to final closing of the reorganization.

Any filing shall include an analysis of the effect of the changes on each of the factors considered by the Board in this order.

6. Motions and objections not previously granted or sustained are denied or overruled. Any argument in the briefs not specifically addressed in this order is rejected either as not supported by the evidence or as not being of sufficient persuasiveness to warrant comments.

UTILITIES BOARD

/s/ Elizabeth S. Jacobs

/s/ Darrell Hanson

ATTEST:

/s/ Joan Conrad
Executive Secretary

/s/ Swati A. Dandekar

Dated at Des Moines, Iowa, this 31st day of January 2013.